

sphere

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This edition of Sphere is dedicated to examining how to transform policy into results that have a meaningful impact on improving the livelihoods of the average citizen in the developing world.

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- **Creating and Capturing Benefits of Microenterprise Development for the Poor:** *Issues for Value Chain Analysis (Page 3)*

Today, especially in Latin America, the region discussed in this issue, there is increasing unrest and disenchantment with policies that seem to do little but cement poverty for many and produce riches for only a few. DevTech's work on decentralization and local governance programs has demonstrated that policies may exist, but that without targeted capacity-building and institutional strengthening these policies can become irrelevant. Likewise, DevTech has participated in an innovative research effort to better understand and addresses the unique challenges that micro- and small-enterprises (MSEs) face in competing in a global market place. Reducing trade barriers and relaxing market controls are proven and sound approaches for economic growth. However, without sufficient capacity at the micro-level, there is no guarantee that such strategies will enable the poor or most in need to participate in the benefits of economic growth. For these reasons the tools and methods discussed in this issue are critical.

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Chulumani, Bolivia (2005)

REALIZING POTENTIAL AT THE MUNICIPAL LEVEL: *DevTech experience in Bolivia*

According to the World Bank's 2005 *World Development Report*, decentralization promotes institutional competition. Furthermore, as a process, it can strengthen the relationship between government and citizens. However, success is not guaranteed. New responsibilities are challenges for weak institutions given the general lack of management capacity of municipal governments in much of the developing world. Mayors and municipal councils are tasked through policies to decentralize the provision of services, to integrate women and indigenous people into the participatory process, and to build consensus for programs such as property and citizen registration. Yet, even with the best intentions they do not necessarily have the tools to succeed.

After nearly three years in Bolivia, DevTech has made significant strides in developing tools to improve local service delivery, enhance equitable citizen participation, and increase the availability of locally-controlled tax resources.

DevTech has improved municipal services such as trash collection, potable water and sewage systems, and street lighting. Specifically, DevTech staff and consultants designed a manual for municipalities in the use of System Control for Public Lighting Management (SISCO) that introduces general urban planning techniques and provides an easy-to-use tool for decision-making within an overall framework of transparent municipal management. Similar tools were developed for the provision of water and sewage. DevTech also increased the capacity of municipalities to finance and manage basic public services by strengthening locally-controlled entities (EPSAs).

DevTech has also increased women's political participation by coordinating project activities at the national level, and working with municipal associations. We responded to the high incidence of violence against women council members and women in general by working with women leaders to prepare a draft law against

Political Harassment and Violence (approved by the Bolivian Senate in Fall 2005 and sent to Constitutional Commission), and conducted workshops in support of women's legal rights through the Strengthening of Integrated Legal Services (SLIMS) units in municipalities. In addition, DevTech supported municipal-led efforts to extend local economic development (LED) to women and minorities by working with groups to assign resources to extend participation of women-owned micro enterprises in such enterprises as Cameloid and Alpaca production strategies in the Altiplano region.

Strengthening the ability of municipalities to raise their own resources is essential to real change at the municipal level. In a short period of time, DevTech increased 'own source revenues' in selected rural municipalities, and updated and refined a taxpayer registry, including vehicles and real property in the Cliza municipality. DevTech also conducted a real property cadastral survey in the San Juan municipality developing parameters to establish decentralized property values. Both of these efforts represent the first step to resurrect what Peruvian economist Hernando de Soto describes as "dead capital" by establishing cadastre services, thereby formalizing land surveyed for the basis of taxation.

DevTech's work in Bolivia has demonstrated that it is possible to effect change, and that much of the talent to do so resides in the region. The firm utilized international consultants from Costa Rica and Peru to supplement the efforts of Bolivian staff and short-term consultants. Our Bolivian staff developed tools to improve local service delivery such as municipal trash collection, street lighting, and potable water, expand participation more broadly, and strengthened the capacity of municipalities to raise (and manage) their tax dollars.

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**DevTech served as a subcontractor under USAID's Democratic Development and Citizen Participation (DDCP) Phase 3, scheduled to end during the summer of 2006.*

Since 2005, DevTech has served as the prime contractor for **USAID's Decentralization and Local Governance Program in Guatemala**. After one year of direct technical assistance and on-the-job training, partner municipalities have achieved significant results in the improvement of their financial management capabilities utilizing the integrated-financial management system (SIAF, its acronym in Spanish) supported by the Government of Guatemala. Installation and implementation of this system improves the capability of municipalities to receive inter-governmental transfers, and provides the basis for reporting on expenses to their citizens. As a result of this assistance, several municipalities for the first time will be holding public meetings to discuss municipal finances, which can then be followed by real efforts by citizens to audit their elected officials. Before, most finances were done manually, and municipalities reported surpluses because not all expenses were recorded. Any attempt at a financial and social audit was impossible due to the lack of accurate data. The Program's efforts are not limited to financial management, and include the installation and usage of an online procurement system (Guatecompras); developing tools for municipal budget and project planning; designing local economic development programs; and working directly with municipal development committees to transform their meeting attendance into real change.

CREATING AND CAPTURING BENEFITS OF MICROENTERPRISE DEVELOPMENT FOR THE POOR:

Issues for Value Chain Analysis

Microenterprise¹ development programs have become popular components of donor-sponsored poverty reduction strategies in recent years. The “Microenterprise for Self-Reliance Act” passed by the US Congress in 2000, for example, instructs USAID to direct at least half of its microenterprise funds to reach the very poor—defined as those subsisting on less than \$1.00 per day, or those 50 percent or more below a country’s poverty line.

Annual microenterprise funding by USAID has doubled in the last ten years to over \$200 million in 2005. Over this time, funding for business development has overtaken that of micro-finance, recognition of the need to provide micro- and small-enterprises (MSEs) with more than just credit to compete in local and global markets.

The development literature is rich with examples of how microenterprises can generate benefits from upgrading to more efficient production practices, from forming ‘horizontal’ partnerships in associations, cooperatives and other organizational forms to buying inputs and market production in volume, and from developing more open and transparent ‘vertical’ relationships with input suppliers, traders and exporters.

Yet, MSEs do not operate in a vacuum. They must work with their suppliers of credit, raw materials, technological information, labor, transport and other services and with their buyers, whether consumers, intermediaries, exporters, if they are to generate added income, investment and employment. These linkages are increasingly important for gaining access to capital, technology and markets in a globalizing economy.

MSEs in ‘Value Chains’

The relationships between MSEs and their suppliers and buyers have come to be called ‘value chains’, since as a product moves through the process it acquires value contributed by each participant in the process. Value chain analysis looks at the following in an integrated manner:

- **Production processes:** ways MSEs can bring inputs together more efficiently within a particular enterprise;
- **Partnering processes:** arrangements among MSEs to achieve economies of scale in purchasing, transport, and sales; and
- **Marketing processes:** how MSEs sell products or services so as to maximize their competitive advantage and increase their buying or selling margins.

¹ USAID defines “microenterprises” as firms with 10 or fewer employees, and owned and operated by someone poor. “Small enterprises” are generally defined as businesses with less than 25 employees.

The MSE ‘Capture’ Challenge

DevTech’s recent work has begun to expose areas that still require research and attention. One of these is how best to position MSEs so that they can capture a share of the benefits created from upgrading production and improving organizational and contracting relationships. All too often, MSEs, even when they organize to act collectively, find themselves at a disadvantage when dealing with large input suppliers or commercial outlets such as supermarkets and global food processing and exporting firms.

The strengths (and weaknesses) of MSEs are in their numbers and their flexibility. In almost any developing country, MSEs dominate much of economic activity, particularly in rural agricultural sectors. In agriculture, MSEs can often move in and out of particular crop production activities depending on market signals; many produce a range of crops as applying hedging strategies every bit as sophisticated as a Wall Street hedge fund manager. In fact, MSE agricultural producers must not only hedge against market conditions but also against such variables as climate and pests.

The same flexibility that MSEs enjoy also means that they frequently find themselves competing against each other, a reality that suppliers of inputs and buyers of what they produce are only too eager to exploit. As a result, MSEs unless highly organized, have traditionally had very little market bargaining power. As national trade barriers come down, MSEs in developing countries find that they are competing against foreign suppliers as well as against each other.

Including ‘Capture’ Concerns in Value Chain Analysis

An important component of value chain analysis needs to be an examination of the opportunities and challenges to MSEs of capturing the benefits. Linking the poor to the benefits of business development services in MSE value chains requires a closer examination of the following:

- **MSE capacity to negotiate:** What is the best mix of business development services to improve MSE capacity to capture

Continued

DevTech and its partners under the USAID-sponsored Accelerated Microenterprise Advancement Project-Business Development Services (AMAP-BDS) are applying value chain analysis to identify the most effective ways to provide business development services for enhancing MSE benefits in the areas of production, partnering and marketing. Most recently, DevTech and its partners completed a survey and analysis of MSEs in Guatemalan high value export vegetable crops and textile handicrafts value chains. The lessons learned will be applied in Tanzania and one other country to be identified, and synthesized in a report of findings and creation of a ‘tool kit’ of approaches to providing BDS, particularly to MSEs among the very poor, that will raise their incomes and generate investment, jobs and incomes.

more of the final price of what they produce? What role can better market (price) information play? How can stakeholders get a better understanding of standards, grading and norms required by global buyers?

- *MSE capacity to advocate:* What support can be provided to MSEs to assure that legislation – as required by accession to international agreements such as the World Trade Organization (WTO) – is approved and implemented to assure competitive practices by large firms such as supermarkets, food processing firms, and other buyers from MSE agricultural producers?
- *MSE capacity to organize.* What are the barriers, such as minimum capitalization requirements and excessive registration procedures, to MSEs grouping together to buy or sell in volume or to purchase and provide their own business development services?

Value chain analysis provides a means by which these issues can be addressed through strategies that effectively enhance the capacity of MSEs to capture the benefits from business development services and to provide linkages for the poor to benefit in the gains that derive from microenterprise development.

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Established in 1984 by economist Jorge A. Sanguinety, Ph.D., DevTech Systems, Inc. is a consulting firm that offers technical assistance in the following practice areas:

- Economic and Social Development
- Education and Human Capacity Development
- Environment and Natural Resource Management
- Gender Integration (Women in Development)
- Governance and Decentralization
- Performance Monitoring and Evaluation

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